

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Westphalia	County Clinton
Audit Date 3/31/05	Opinion Date 5/24/05	Date Accountant Report Submitted to State: 8/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 108 North Spring Street	City St. Johns	State MI	ZIP 48879
Accountant Signature <i>Abraham & Gaffney, P.C. Aaron M. Jones, CPA</i>			Date 8/29/05

**Township of Westphalia
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2005

Township of Westphalia

Clinton County, Michigan

March 31, 2005

BOARD OF TRUSTEES

Alden Thelen

Supervisor

Jane Bierstetel

Clerk

Marvin Smith

Treasurer

Daniel Thelen

Trustee

Daniel Pung

Trustee

Township of Westphalia

TABLE OF CONTENTS

March 31, 2005

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	ii-vii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7-14
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	15-16
Budgetary Comparison Schedule - Fire Fund	17

Principals

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Westphalia
Westphalia, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Westphalia, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Westphalia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Township of Westphalia, Michigan as of March 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2004, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

May 24, 2005

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The following is a discussion and analysis of Township of Westphalia's (the Township's) financial performance and position, providing an overview of the activities for the year ended March 31, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the Township's financial statements, which follow this section. Fiscal year 2005 represents the first year the Township implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$873,726.

Fund Level:

- At the close of the fiscal year, the Township's governmental funds reported a combined ending fund balance of \$599,284, all of which was unreserved and undesignated.
- The General Fund realized \$28,055 more in revenues than anticipated for the fiscal year. The General Fund operations also expended \$13,761 less than appropriated.
- Overall, the General Fund balance increased by \$27,066 to \$354,101.

Capital and Long-term Debt Activities:

- The Township issued no new debt issues for the year.
- The Township is well below its authorized legal debt limit.
- The total addition to the capital asset schedule for the primary government was \$20,300.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Township's annual financial report. The annual financial report of the Township consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), and *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds.

Government-wide Financial Statements (Reporting the Township as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the Township as a whole, and about its activities. Their purpose is to assist in answering the question, is the Township, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the Township's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the Township's financial position is improving or deteriorating.

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The Statement of Activities (page 2) presents information showing how the Township's net assets changed during 2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- **Governmental Activities** – All of the Township's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. All of the Township's general government departments, law enforcement, economic development, Township improvements, street improvements, recreation activities, and other Township-wide elected official operations are reported under these activities.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

Fund Financial Statements (Reporting the Township's Major Funds)

The fund financial statements, which begin on page 3, provide information on the Township's significant (major) funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Township uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for the Township of Westphalia include the General Fund and the Fire Fund. The Township does not have any funds that are classified as nonmajor.

- **Governmental Funds** - All of the Township's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the Township's programs. Governmental funds include the *General Fund*, as well as the *Special Revenue Fund* (use of fund balance is restricted).

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 7 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

As previously stated, the Township of Westphalia's combined net assets were \$873,726 at the end of this year's operations.

Net Assets as of March 31, 2005

	<u>Governmental Activities</u>
Current Assets	\$ 600,736
Noncurrent Assets	<u>274,442</u>
Total Assets	<u>\$ 875,178</u>
Current Liabilities	<u>\$ 1,452</u>
Total Liabilities	<u>\$ 1,452</u>
Net Assets	
Invested in Capital Assets	\$ 274,442
Unrestricted	<u>599,284</u>
Total Net Assets	<u>\$ 873,726</u>

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Township's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending March 31, 2005

	<u>Governmental Activities</u>
Revenues	
Program Revenues	
Charges for Services	\$ 41,459
Operating Grants and Contributions	5,508
General Revenues	
Property Taxes	147,907
State Shared Revenue	92,427
Investment Earnings	5,775
Miscellaneous	<u>6,214</u>
Total Revenues	299,290
Expenses	
General Government	88,635
Public Safety	89,496
Public Works	71,478
Health and Welfare	<u>13,466</u>
Total Expenses	<u>263,075</u>
Increase in Net Assets	36,215
Net Assets - Beginning	<u>837,511</u>
Net Assets - Ending	<u>\$ 873,726</u>

Governmental Activities:

The result of 2005 governmental activity was an increase of \$36,215 in net assets to \$873,726. Of the total governmental activities net assets, \$274,442 is invested in capital assets. The balance of \$599,284 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were property taxes at 49%, state shared revenue at 31%, and charges for services at 14%. The Township levied two property tax millages for the year ended March 31, 2005, the first for general government operations at 1.0000 mills, which is not assigned to any particular activity, and the second for fire and rescue operations for 1.500, which is used to offset the costs of the Township Fire Department.

Expenses:

Public safety is the largest governmental activity, expending approximately 34% of the governmental activities. General government the second largest area, expending approximately 33% of the governmental activities total and includes the Board of Trustees, Supervisor, Clerk, Treasurer, and buildings and grounds.

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

FINANCIAL ANALYSIS OF THE TOWNSHIP'S MAJOR FUNDS

As the Township completed 2005, its governmental funds reported *combined* fund balances of \$599,284. This is a net increase of \$47,965. The net changes are summarized in the following chart:

	<u>General Fund</u>	<u>Fire Fund</u>
Fund Balance 3/31/04	\$ 327,035	\$ 224,284
Fund Balance 3/31/05	<u>354,101</u>	<u>245,183</u>
Net Change	<u>\$ 27,066</u>	<u>\$ 20,899</u>

General Fund:

The General Fund is the chief operating fund of the Township. Unless otherwise required by statute, contractual agreement or Board policy, all Township revenues and expenditures are recorded in the General Fund. As of March 31, 2005, the General Fund reported a fund balance of \$354,101. This amount is an increase of \$27,066 from the fund balance of \$327,035 reported as of March 31, 2004. The 2005 original budget called for a \$14,750 use of fund balance.

The General Fund 2005 revenues exceeded 2005 expenditures by \$27,066.

General Fund Budgetary Highlights:

The Township of Westphalia's budget is a dynamic document. Although adopted prior to April 1 each year, the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenues totaled \$197,655, \$28,055 above the final amended budget. The final amended and original budgets were the same and were only 14% different than the final actual amended budget.

The Township's total expenditure budget was the same as the original budget during 2005.

Actual Township expenditures for 2005 were \$13,761 under budget. General Fund actual expenditures came in at \$170,589 and the final budgeted amount was \$184,350, which was an 8% difference.

Fire Fund:

As of March 31, 2005, the Fire Fund reported a fund balance of \$245,183, an increase of \$20,899 over the prior year. The total fund balance is undesignated/unreserved. There was no material changes noted between the original and final amended revenues. There was also, no material changes noted between the original and final amended expenditure budget.

Township of Westphalia

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of year 2005, the Township had invested \$274,442, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$208,870. Depreciation charges for the fiscal year totaled \$32,050. Additional information related to capital assets is detailed in Note D of the Financial Statements. Net book value of capital assets at March 31, 2005 was as follows:

	Governmental Activities
Buildings, net	\$ 35,980
Furniture and equipment, net	168,020
Vehicles, net	<u>70,442</u>
Capital assets, net	<u>\$ 274,442</u>

Long-term Debt - As of March 31, 2005, the Township had no debt outstanding.

GOVERNMENT ECONOMIC OUTLOOK

The State of Michigan continues to have difficulty in balancing their budget. Any shortfalls in projected revenues could affect our revenue sharing funds that we receive. Our budgets have already been cut more than once and any further cuts would affect the services that we provide to the citizens of the Township of Westphalia.

Other factors that the Township is aware of are:

- Property tax revenue does seem to be keeping pace with inflation.
- Health insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.

These and many other factors were considered in adopting the Budget for 2006. A usage of \$4,200 of the Township's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be significantly higher. The Township continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE TOWNSHIP

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Township offices at (989) 587-3411.

BASIC FINANCIAL STATEMENTS

Township of Westphalia
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 233,605
Investments	347,978
Receivables	16,098
Due from other governmental units	<u>3,055</u>
Total current assets	600,736
Noncurrent assets	
Capital assets, net	<u>274,442</u>
TOTAL ASSETS	875,178
LIABILITIES	
Current liabilities	
Accounts payable	<u>1,452</u>
NET ASSETS	
Invested in capital assets	274,442
Unrestricted	<u>599,284</u>
TOTAL NET ASSETS	<u><u>\$ 873,726</u></u>

See accompanying notes to financial statements.

Township of Westphalia

STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
General government	\$ 88,635	\$ 16,781	\$ -	\$ (71,854)
Public safety	89,496	12,200	1,350	(75,946)
Public works	71,478	-	4,158	(67,320)
Health and welfare	13,466	12,478	-	(988)
Total governmental activities	<u>\$ 263,075</u>	<u>\$ 41,459</u>	<u>\$ 5,508</u>	<u>(216,108)</u>
General revenues:				
Property taxes				147,907
State shared revenues				92,427
Investment earnings				5,775
Miscellaneous				6,214
Total general revenues				<u>252,323</u>
Change in net assets				36,215
Net assets, beginning of the year				<u>837,511</u>
Net assets, end of the year				<u>\$ 873,726</u>

See accompanying notes to financial statements.

Township of Westphalia
GOVERNMENTAL FUNDS BALANCE SHEET
March 31, 2005

	General	Special Revenue Fire	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 134,834	\$ 98,771	\$ 233,605
Investments	210,011	137,967	347,978
Accounts receivable	7,598	8,500	16,098
Due from other funds	1,660	-	1,660
Due from other governmental units			
Local	1,222	1,833	3,055
TOTAL ASSETS	<u>\$ 355,325</u>	<u>\$ 247,071</u>	<u>\$ 602,396</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,224	\$ 228	\$ 1,452
Due to other funds	-	1,660	1,660
TOTAL LIABILITIES	1,224	1,888	3,112
FUND BALANCES			
Unreserved - undesignated	354,101	245,183	599,284
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 355,325</u>	<u>\$ 247,071</u>	<u>\$ 602,396</u>

See accompanying notes to financial statements.

Township of Westphalia

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2005

Total fund balance - governmental funds \$ 599,284

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 483,312
Accumulated depreciation is	<u>(208,870)</u>

Capital assets, net	<u>274,442</u>
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Net assets of governmental activities	<u><u>\$ 873,726</u></u>
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See accompanying notes to financial statements.

Township of Westphalia

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended March 31, 2005

	General	Special Revenue Fire	Total Governmental Funds
REVENUES			
Taxes	\$ 76,901	\$ 82,864	\$ 159,765
Intergovernmental	96,585	1,350	97,935
Charges for services	15,386	12,200	27,586
Interest and rents	5,669	2,121	7,790
Other	3,114	3,100	6,214
TOTAL REVENUES	197,655	101,635	299,290
EXPENDITURES			
Current			
General government	85,645	-	85,645
Public safety	-	60,086	60,086
Public works	71,478	-	71,478
Health and welfare	13,466	-	13,466
Capital outlay	-	20,650	20,650
TOTAL EXPENDITURES	170,589	80,736	251,325
EXCESS OF REVENUES OVER EXPENDITURES	27,066	20,899	47,965
Fund balances, beginning of year	327,035	224,284	551,319
Fund balances, end of year	\$ 354,101	\$ 245,183	\$ 599,284

See accompanying notes to financial statements.

Township of Westphalia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2005

Net change in fund balances - total governmental funds \$ 47,965

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 20,300	
Depreciation expense	<u>(32,050)</u>	
Excess of depreciation expense over capital outlay		(11,750)

Change in net assets of governmental activities \$ 36,215

See accompanying notes to financial statements.

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Westphalia Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Clinton County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services to its residents in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Township of Westphalia (primary government). The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Westphalia Township contain all of the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township does not have any activities that would be considered to be business-type activities.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and are made up of charges to recipients of goods or services. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All of the Village's funds were considered major for the fiscal year ended March 31, 2005.

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The major funds of the Township are:

- a. The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Fire Fund is used to account for the operations of the fire department.

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown in the required supplementary information to the financial statements were prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, any transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. The amendments to the originally adopted budgets were not material.

6. Cash and Investments

Cash consists of checking accounts. Investments consist of certificates of deposit with original maturities of greater than 90 days.

7. Property Tax

The Township of Westphalia bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied twice per year. A summer tax is levied on July 1 and a winter tax is levied on December 1. The tax levies are payable through September 30 and February 28, respectively. All taxes not paid by their due dates are deemed delinquent. Delinquent real property taxes are turned over to the Clinton County Treasurer on March 1 of the year following the levy. The Clinton County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental services and additional amounts for fire operations. For the year ended March 31, 2005 the Township levied 1.0000 and 1.5000 mills per \$1,000 of assessed valuation for general governmental services and fire operations respectively. The total taxable value for the 2004 levy for property within the Township was \$57,022,101.

8. Capital Assets

Capital assets include buildings and improvements, furniture and equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an initial individual cost of \$1,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Capital Assets – continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Furniture and equipment	5 - 10 years
Buildings and improvements	40-50 years
Vehicles	15 years

9. Comparative Data

Comparative data for the prior year has not been presented in each of the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

10. Accounting Change

As of April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets included assets in the amount of \$546,616, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE B: CASH AND INVESTMENTS - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The Township's cash and investments at March 31, 2005, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 233,605	\$ 243,273
Investments		
Certificates of deposit	<u>347,978</u>	<u>345,532</u>
	<u>\$ 581,583</u>	<u>\$ 588,805</u>

Deposits of the Township are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Township. As of March 31, 2005, the Township accounts were insured by the FDIC for \$300,000, and the amount of \$288,805 was uninsured.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year end.

The cash and investments referred to above have been reported in either the cash or investments captions on the statement of net assets and the balance sheet based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2005:

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

	Primary Government
Cash	\$ 233,605
Investments	<u>347,978</u>
	<u>\$ 581,582</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at March 31, 2005:

Due to General fund from:	
Fire fund	\$ <u>1,660</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	Restated Balance April 1, 2004	Additions	Deletions	Balance Mar. 31, 2005
Governmental Activities				
Buildings and improvements	\$ 84,762	\$ -	\$ -	\$ 84,762
Vehicles	285,800	-	-	285,800
Furniture and equipment	<u>92,450</u>	<u>20,300</u>	<u>-</u>	<u>112,750</u>
Subtotal	463,012	20,300	-0-	483,312
Less accumulated depreciation				
Buildings and improvements	(46,850)	(1,932)	-	(48,782)
Vehicles	(98,960)	(18,820)	-	(117,780)
Furniture and equipment	<u>(31,010)</u>	<u>(11,298)</u>	<u>-</u>	<u>(42,308)</u>
Subtotal	<u>(176,820)</u>	<u>(32,050)</u>	<u>-0-</u>	<u>(208,870)</u>
Capital assets, net	<u>\$ 286,192</u>	<u>\$ (11,750)</u>	<u>\$ -0-</u>	<u>\$ 274,442</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 2,990
Public safety	<u>29,060</u>
Total	<u>\$ 32,050</u>

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS

March 31, 2005

NOTE E: RETIREMENT PLAN

The Township of Westphalia is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Westphalia Pension Plan is a money purchase defined contribution pension benefit plan. Contributions are based on an employee's annual calendar year compensation. During the year ended March 31, 2005, the Township of Westphalia made contributions for all participating employees of 7% per employee, with the participating employees required to contribute 7% each.

All Township employees are eligible to participate in the plan. All eligible employees, except Board of Review members, participate in the plan. The contributions fund the premiums for Individual Deferred Annuity policies with the Travelers Insurance Company through Municipal Retirement Systems, Inc.

For the year ended March 31, 2005, the Township of Westphalia had a total payroll of \$69,498. The Township of Westphalia Retirement Plan covered payroll for the period ended March 31, 2005 of \$68,443. The Township of Westphalia made contributions for the 2004 plan year to the retirement plan in the amount of \$4,695.

NOTE F: RISK MANAGEMENT

The Township is exposed to various risks of loss including accidental death, dismemberment, disability; medical expense benefit; errors and omissions; blanket accident; firefighter accident; and workers' compensation for which the Township carries commercial insurance.

The Township also participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, auto, crime, in-land marine, and bonding losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Township's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level.

During the year ended March 31, 2005, the Township incurred expenditures in the General and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Board of Review	\$ 750	\$ 799	\$ 49
Other	25,000	26,013	1,013
Health and Welfare			
Ambulance	13,000	13,466	466

Township of Westphalia
NOTES TO FINANCIAL STATEMENTS
March 31, 2005

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Fire Fund			
Public Safety			
Payroll taxes	\$ -	\$ 407	\$ 407
Pension expenses	-	2,082	2,082
Repairs and maintenance	9,500	9,556	56
Telephone	-	1,065	1,065
Training	-	520	520
Utilities	-	1,897	1,897
Other	-	1,132	1,132
Capital Outlay	-	20,650	20,650

REQUIRED SUPPLEMENTARY INFORMATION

Township of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Current tax levy	\$ 53,000	\$ 53,000	\$ 64,381	\$ 11,381
Trailer tax	-	-	288	288
Administration fees	13,000	13,000	12,232	(768)
Total taxes	66,000	66,000	76,901	10,901
Intergovernmental				
State				
Sales and use tax	95,000	95,000	92,427	(2,573)
Metro Act	-	-	4,158	4,158
Total intergovernmental	95,000	95,000	96,585	1,585
Charges for services				
Ambulance runs	3,000	3,000	12,478	9,478
Other	-	-	2,908	2,908
Total charges for services	3,000	3,000	15,386	12,386
Interest and rents				
Interest	3,000	3,000	3,654	654
Rents	1,000	1,000	2,015	1,015
Total interest and rents	4,000	4,000	5,669	1,669
Other				
Refunds and reimbursements	1,000	1,000	300	(700)
Other	600	600	2,814	2,214
Total other	1,600	1,600	3,114	1,514
TOTAL REVENUES	169,600	169,600	197,655	28,055

Township of Westphalia

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
General government				
Township Board	\$ 3,500	\$ 3,500	\$ 2,400	\$ 1,100
Supervisor	12,200	12,200	10,600	1,600
Clerk	14,700	14,700	13,500	1,200
Board of review	750	750	799	(49)
Treasurer	14,700	14,700	13,500	1,200
Assessor	12,500	14,700	14,622	78
Elections	2,500	3,500	2,853	647
Buildings and grounds	2,500	3,800	1,358	2,442
Other	20,000	25,000	26,013	(1,013)
Total general government	83,350	92,850	85,645	7,205
Public works				
Drains at large	6,000	6,000	2,119	3,881
Highways and streets	85,000	72,500	69,359	3,141
Total public works	91,000	78,500	71,478	7,022
Health and welfare				
Ambulance	10,000	13,000	13,466	(466)
TOTAL EXPENDITURES	184,350	184,350	170,589	13,761
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,750)	(14,750)	27,066	41,816
Fund balances, beginning of year	327,035	327,035	327,035	-0-
Fund balances, end of year	<u>\$ 312,285</u>	<u>\$ 312,285</u>	<u>\$ 354,101</u>	<u>\$ 41,816</u>

Township of Westphalia

Fire Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 76,000	\$ 76,000	\$ 82,864	\$ 6,864
Intergovernmental	-	-	1,350	1,350
Charges for services	4,500	4,500	12,200	7,700
Interest	2,331	2,331	2,121	(210)
Other	3,500	3,500	3,100	(400)
TOTAL REVENUES	86,331	86,331	101,635	15,304
EXPENDITURES				
Public safety				
Salaries	35,000	31,000	28,268	2,732
Payroll taxes	-	-	407	(407)
Pension expenses	-	-	2,082	(2,082)
Insurance	15,000	9,500	9,228	272
Repairs and maintenance	15,000	9,500	9,556	(56)
Telephone	-	-	1,065	(1,065)
Training	-	-	520	(520)
Supplies	20,000	35,000	5,931	29,069
Utilities	-	-	1,897	(1,897)
Other	-	-	1,132	(1,132)
Capital outlay	-	-	20,650	(20,650)
TOTAL EXPENDITURES	85,000	85,000	80,736	4,264
EXCESS OF REVENUES OVER EXPENDITURES	1,331	1,331	20,899	19,568
Fund balance, beginning of year	224,284	224,284	224,284	-0-
Fund balance, end of year	<u>\$ 225,615</u>	<u>\$ 225,615</u>	<u>\$ 245,183</u>	<u>\$ 19,568</u>